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SOUTH ASIA: Pakistan's recognition of Bangladesh yesterday moves the two countries a long step closer to resolving problems left over from the division of Pakistan in 1971.

Prime Minister Mujibur Rahman will head a Bangladesh delegation to the Islamic summit meetings that began in Lahore yesterday. Various Muslim leaders had made a major diplomatic effort to get Islamabad and Dacca to agree to some formula under which Bangladesh--the second most populous Muslim nation--could participate. The government in Dacca, however, had refused to send a delegation prior to formal recognition by the Pakistanis.

It is not yet clear whether Dacca has agreed to the immediate release of 195 Pakistani prisoners of war accused of war crimes, the quid pro quo that Prime Minister Bhutto had been demanding. The Bengalees have been implying that they will release the prisoners.

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The major remaining issue between Dacca and Islamabad is the division of Pakistan's foreign debt. Negotiations with the consortium of Western aid donors on the rescheduling of the debt and on new aid to the two nations have been hindered by the refusal of the two governments to meet to resolve the debt question.

Recognition may marginally improve Pakistan's relations with India, since it could be seen in New Delhi as an indication of Pakistani reasonableness. More likely, however, the Indians will be concerned about the effect of recognition on growing anti-Indian

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[REDACTED]

sentiment in Bangladesh, which Pakistan has already been attempting to exploit by playing on traditional Muslim fear of Hindu domination.

At home, Pakistani religious conservatives, who strongly opposed recognition, will not be happy with Bhutto's announcement, but they may have difficulty criticizing it because he took the step in the context of the summit and Islamic solidarity.

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THAILAND: Student activists are again raising the political temperature in Bangkok. They have charged that government security elements recently leveled a village in northeast Thailand suspected of aiding Communist insurgents-- [REDACTED]

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Three major student organizations staged a rally on February 20 to demand "unconditionally" that the government compensate the villagers and punish those involved. Thus far, the government has not responded to this demand, the first that has directly affected the military's interests.

The ability of the students to enlist broad popular support on this issue is questionable. Recent press articles in Bangkok have suggested that the student movement has begun to lose its influence with the public, which has grown weary of unruly students. Several recent articles have even portrayed a prominent student leader as a Communist sympathizer. Such allegations could give army leaders--who are becoming increasingly restive over student disorders--a pretext to clamp down on leading activists.

In any event, the current student unrest will clearly strengthen army chief Krit Siwara's growing conviction that the caretaker government of Prime Minister Sanya should stay on after the national elections scheduled for this summer. Krit--and perhaps the King--apparently believe that the Sanya government represents the best compromise between military rule and a left-wing regime. [REDACTED]

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ISRAEL: The National Religious Party shows no sign of reconsidering its decision of three days ago not to join Prime Minister Meir's cabinet. Alignment leaders are now concerned that the party may act in concert with the Likud to block legislation in Knesset committees. National Religious Party leader Yosef Burg, generally regarded as a moderate, said yesterday that the party would have to become a genuine opposition party if it stayed out of the government.

Mrs. Meir is still actively attempting to convince party leaders to reconsider their decision not to join, but the party's price may have gone up. A party spokesman said on February 21 that the party no longer felt bound by the compromise on the religious issue worked out earlier with the Alignment. He claimed it was once again demanding that Mrs. Meir agree to press for immediate revision by the Knesset of the Israeli Law of Return so as to recognize only orthodox conversions. Alignment and National Religious Party negotiators are scheduled to talk again tomorrow to see if their differences can still be reconciled.

The Alignment factions early yesterday morning approved Mrs. Meir's decision to head a minority government. Defense Minister Dayan and Transportation Minister Peres, both Rafi faction members, reportedly supported the decision, although they have refused to take cabinet posts themselves.

The Prime Minister is scheduled to present the new cabinet to President Katzir on February 27 and to the Knesset for a vote of confidence a few days thereafter. Mrs. Meir reportedly failed again yesterday to convince Dayan and Peres to reverse their decision not to serve. She apparently plans to hold their two posts herself should they remain adamant--in effect leaving them the option of joining the cabinet later.

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USSR-MBFR: The Soviets have made concessions on procedural matters for informal sessions at the MBFR talks, helping to get the stalemated discussions moving forward.

At an informal meeting between NATO and Warsaw Pact representatives on February 20, the Soviets tentatively agreed that reductions of US and Soviet ground forces could be considered prior to discussing the reduction of other ground troops. They also tentatively agreed not to bring up the question of nuclear and air forces during the discussion of ground forces. They dropped their insistence that air and nuclear forces be a specifically named topic for the agenda, but retained the right to raise the subject under a proposed agenda item called "other topics."

The tentative agreement of February 20 does not alter either side's position on any substantive issues, but it does offer a formula under which discussions could continue. The negotiations had become bogged down by disagreements on the subject matter to be discussed. Substantive talks will continue to take place in informal "social meetings" rather than in plenary sessions; thus the Soviet concessions may not be noted publicly.

The Western allies are generally pleased that the Soviets have agreed to focus first on US and Soviet ground forces reductions, but most remain wary about the "other topics" agenda item. They hope to keep to a minimum any discussion of reducing air and nuclear forces, but--given the Soviet position that this topic must be negotiated--will probably not be able to avoid the issue entirely.

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USSR-LIBYA: The crew of the Soviet freighter Nezhin, arrested by the Libyans on February 12, has been released. Two of the three Soviet warships that took up patrol positions near Libya on February 15 have moved away from the area. The Soviet Embassy in Tripoli considers the matter closed.

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The Nezhin affair has not disrupted Soviet merchant shipping to Libya. Since the incident, a Soviet freighter has arrived in Tripoli and another has left Benghazi.

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No Soviet naval reaction to the affair was noted until February 14--two days after the arrests were made. At that time, three Soviet warships of the Mediterranean Squadron, a cruiser and two destroyers, began steaming toward Libya and took up patrol positions near the coast. The cruiser and one of the destroyers patrolled off Benghazi, but both ships had moved away from the coast by the 20th.

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INTERNATIONAL MONETARY DEVELOPMENTS: The world's major currencies posted strong gains against the dollar again yesterday in volatile and heavy trading. The dollar's decline ranged from about 0.5 percent against the yen, lira, and German mark to 2 percent against the French franc. The price of gold surged to a record \$163 an ounce in London yesterday, up nearly 40 percent since January 1.

Traders attributed the currency markets' volatility to continuing economic uncertainties over the effects of the oil price rise and rumors of dollar sales by central banks. There was, however, no major intervention reported yesterday.

Since its peak in mid-January, the dollar has undergone a depreciation ranging from 4 percent against the lira to more than 10 percent against the Swiss franc. The French franc has regained much of the ground it lost against major European currencies following its withdrawal from the European joint float in mid-January. [REDACTED] [REDACTED]

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JAPAN: The yen has appreciated 3.6 percent against the dollar in the past week to a rate of 280.5, bringing the increase in its value over the past month to 6.2 percent. The trend will probably be reversed in the coming months, however, because of substantial balance-of-payments deficits.

Trading volume has been light on the Tokyo money market since January 24. The Bank of Japan has intervened in only minimal amounts, compared with the almost daily--and sometimes massive--support of the yen during the preceding 10 months.

Some \$300-\$400 million was forced onto the money market this month because of limitations placed by the government on dollar holdings by residents. At the same time, export earnings are growing rapidly. The Ministry of Finance also has exerted a steadying influence by its scrutiny of financial activities since the wave of speculative dollar-buying on January 23. In addition, slightly more optimistic projections for the economy, relaxation of controls on overseas borrowing by Japanese firms, and weakening of the dollar in Europe have helped the yen.

Although the yen is now showing strength, the balance-of-payments deficit will soon exert renewed downward pressure. The \$1.9-billion payments deficit registered last month may not be repeated, but substantial deficits are likely as a result of higher oil costs. The 300 yen exchange rate for dollars for future delivery in 90 days reflects this anticipated weakening of the yen. [REDACTED]

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OECD: Members of the Organization for Economic Cooperation and Development are at odds on how to deal with the impact of higher oil prices on their current account balances.

At a recent OECD session, the members reported new balance-of-payments objectives for 1974 that took account of the dramatic rise in oil prices. The new targeted deficits failed to add up to the corresponding oil producers' surplus as projected by the OECD staff.

The OECD staff believes that the statements of the Japanese, Swiss, and Norwegians project a more favorable payments position than is consistent with the objectives of other members. The staff warned that the goals set forth in these statements could be realized only if the US, Germany, and the developing countries were prepared to accept greater deterioration in their balances than were already anticipated.

Unless inconsistent national goals are reconciled, there is a danger that OECD members will take action to improve their balance-of-payments position at the expense of others. The French withdrawal from the European joint float in January, although motivated also by other considerations, is a notable example of unilateral action. Other countries may follow the French example. Italy already has hinted it will impose new trade controls. [REDACTED]

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BRAZIL: Brazil devalued the cruzeiro 2 percent this week, in a move to reduce the expected large trade deficit brought about by the international oil situation. This was the second devaluation in less than a month. The exchange rate is now 6.4 cruzeiros to the dollar.

These recent adjustments in the official exchange rate indicate a shift to more frequent and larger devaluations. Brazilian exporters have been complaining that the cruzeiro was not sufficiently devalued last year and that they are facing even stiffer international competition this year.

The latest devaluation still leaves Brazil's currency overvalued. The illegal parallel market rate is approximately 7.2 cruzeiros to the dollar.

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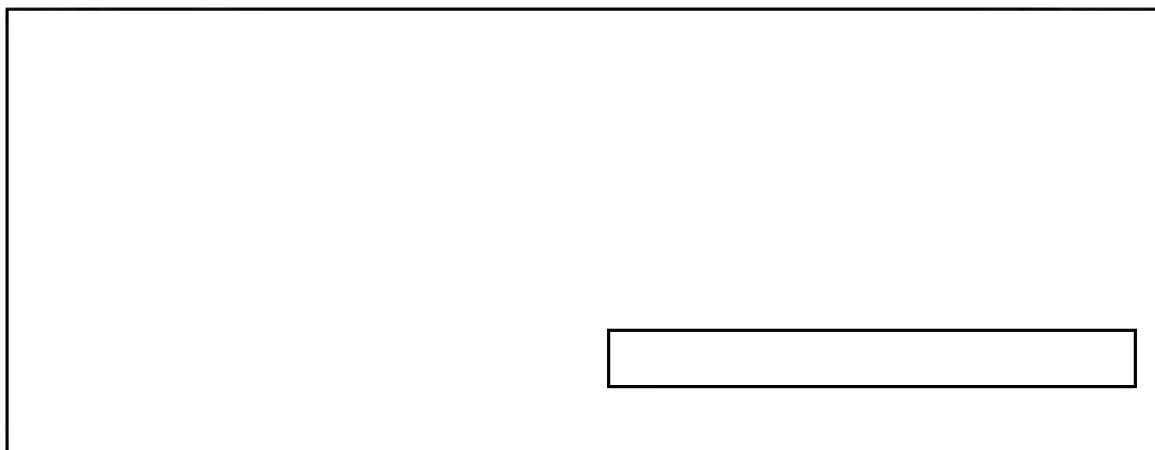
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Ethiopia: Addis Ababa was quiet yesterday, following three days of demonstrations by students and others protesting the government's educational and economic policies. Teachers and bus and taxi drivers are continuing their strike, however, and schools remain closed. The government made one concession to the teachers by postponing implementation of a new educational program opposed by the teachers. 

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Romania: President Ceausescu will make an official five-day visit to Argentina beginning March 5, according to press reports. The Romanian leader postponed a similar visit last fall after the coup in Chile interrupted his Latin American tour. 

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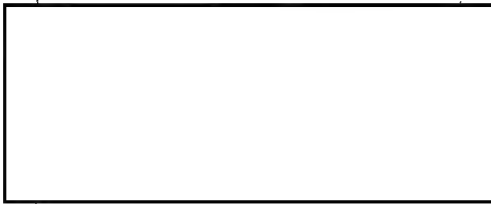
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